XILINX®

June 30, 2004

Ms. Suzanne Bielstein
Director of Major Projects
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Ms. Bielstein:

Re: File Reference No. 1102-100

Xilinx, Inc. ("Xilinx") appreciates the opportunity to offer comments on the Exposure Draft, Share-Based Payment - an amendment of FASB Statements No. 123 and 95 ("Exposure Draft"). Xilinx is a U.S. incorporated multinational corporation headquartered in San Jose, California. Xilinx is a fabless semiconductor company and is the world's leading supplier of programmable logic solutions. Xilinx develops and markets a broad line of advanced integrated circuits, software design tools and intellectual property. Xilinx is listed on the NASDAQ stock market under the symbol "XLNX".

Xilinx offers stock option plans to its worldwide employees. Nearly all Xilinx employees participate in the broad based plans. In 2004, approximately 7 percent of the options are awarded to the top five officers and the remaining 93 percent are awarded to all other Xilinx employees. A summary of Xilinx's major concerns and comments in relation to the Exposure Draft are summarized as follows:

- By accounting definition and economic standpoint, employee stock options are not an expense. Xilinx incurs no outflow of cash, no consumption of corporate assets, no decline in the value of corporate assets and no creation of a liability representing actual or expected cash out flows.

- Use of Black-Scholes, lattice or binomial models will not produce accurate, reliable and consistent measurement of the fair value of employee stock options. These models rely on too many future estimates that are inherently subject to management judgment and bias, and are not objective and supportable.

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- The proposal to require employee stock options that vest on a graded schedule to be valued and accounted for separately will result in multiple valuations for the same option grant and unnecessary complexity with considerable costs and challenges. This will result because employee stock options are granted at various dates throughout the year.

- The Exposure Draft, as written, will materially distort the equity section of company balance sheets. The company's capital structure is arbitrarily inflated by the expensing of employee stock options although no money has changed hands and no stock has actually been issued, or for that matter, may never be issued.

- Xilinx also has concerns about the income tax effects of employee stock options, as proposed under the Exposure Draft. Tax accounting for employee stock options under the Exposure Draft contradicts the current income tax accounting standards.

- The Exposure Draft will have a significant impact on high growth and emerging technology companies. In that regard, the proposal to expense employee stock options will likely lead to the cessation of broad based employee share ownership.

- The intrinsic value method of accounting for employee stock options has been part of Generally Accepted Accounting Principles ("GAAP") for over 30 years. It has been an acceptable method of accounting during this period and the vast majority of the companies have adopted this method of accounting.

- Given the complexities of the accounting standards proposed in the Exposure Draft, Xilinx believes the Financial Accounting Standards Board ("FASB") is moving further away from achieving its goal of establishing financial standards that are reliable as well as understandable by those possessing reasonable accounting knowledge and understanding of the business and economic activities covered by the accounting standards. The primary goal of establishing greater financial transparency will not be achieved.

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- The option pricing models require arbitrary, subjective and potentially inaccurate estimates, which will undoubtedly result in unreliable, inaccurate and inconsistent measurement of employee stock option costs. Given this fact, it is almost impossible for a company's officers to certify for the fairness of its financial statements under Sections 302 and 906 of the Sarbanes-Oxley Act of 2002.

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Compensation Cost Recognition

Xilinx does not agree with the FASB's proposal. From a financial accounting and economic perspective, the issuance of employee stock options is not an expense. Paragraph 80 of Statement of Financial Accounting Concepts No. 6 ("SFAC 6"), Element of Financial Statements, defines expenses as "outflows or other using up of assets or incurrence of liabilities (or a combination of both) from delivering or producing goods, rendering services, or carrying out the activities that constitute the entity's ongoing major or central operations." If you consider the events surrounding employee stock options including those at the time of issuance, it involves no cash. The subsequent exercise involves the company's receiving cash and the expiration also involves no exchange of cash. Thus, both the issuances and exercises of employee stock options do not result in expenditures (defined as payments of cash for goods or services) or cash outflows. The granting of employee stock options does not meet the definition of an expense under SFAC 6.

Valuation Models

Xilinx strongly believes that the intrinsic value method is appropriate and that it would not be possible to accurately measure the fair value of nontransferable employee stock options at grant date. The valuation models proposed in the Exposure Draft rely on too many estimates and bias information that will be inconsistent, lack objectivity and are unverifiable. This will undoubtedly result in an unreliable outcome. The basis for the comment on valuation models is summarized as follows:

First, Xilinx has concerns about the proposed models and their applications. The Exposure Draft states that the Black-Scholes model can provide a reasonable estimate of the fair value of employee stock options and allows the use of the Black-Scholes model in certain limited situations. However, FASB believes a lattice model (binomial model) is preferable for measuring the fair value of employee stock options because it can directly incorporate assumptions about employees' post-vesting behaviors. FASB also believes that a lattice model meets the fundamental criterion of how a willing seller and a willing buyer would value the same instruments. However, these option pricing models were never designed to value employee stock options and are more suitable for options that are traded in the open markets. Characteristics of employee stock options are different than those traded in the market. For example, unlike traded options, employee stock options cannot be transferred or sold. They have a longer life (up to 10 years) than traded options which generally expire between 1 and 6 months from issuance. These differences will limit the effectiveness and the accuracy of the pricing models proposed in the Exposure Draft.

The lattice pricing model requires arbitrary and potentially inaccurate estimates by management of the option issuing companies. This will likely result in unreliable, inaccurate and inconsistent measurement of employee stock option costs. Under the Exposure Draft, a company can no longer rely solely on historical volatility. It must now consider other factors such as the implied volatility of traded options on the company's stock, the length of time the business has been public, the tendency of volatility to return to its "mean" or long-term average and "appropriate and regular" intervals for price observations. The implied volatility is a very complex computation and requires judgment in applying it, because the traded options and employee stock options will never be identical. Traded options with the same expiration date but different exercise prices may have different volatilities. In addition, as stated above, the term of the traded options tends to be significantly shorter than an employee stock option, which limits its effectiveness as a market indicator of the stock's volatility. Other factors, such as technological breakthroughs in the semiconductor industry, which cannot be easily predicted, can have a significant impact on the stock's volatility.

Other unreliable factors that need to be built into the valuation model include the suboptimal exercise factor and early exercise behavior. FASB established a "suboptimal exercise" factor, based on some studies which have found that employees tend to exercise their stock options when the stock price reaches a specific multiple of the exercise price (e.g., 2 times the exercise price). This suboptimal exercise factor can be different for different groups of employees, based upon age, sex, race, employees with college-aged children, employees with sick relatives, newly married employees who may want to buy their first house, employees going through divorce proceedings, etc. The possibilities are endless. Early exercise behavior is another factor that cannot be accurately estimated. For similar reasons stated above, early exercise behavior can be different for different groups of employees. Xilinx, like most companies, does not maintain such employee behavioral data. The employees' behavior is inconsistent and very difficult to predict. Assuming Xilinx could somehow gather this data, such information is meaningless and is not indicative of future employee behavior.

Other external unforeseen factors can impact the difference of the intrinsic value vs. the expense recognition from the model, which will generate unreliable financial results to the investment community. The last few years Xilinx has experienced many of these factors. The technology bubble was the most extreme, but is a good example of euphoria and limited visibility and how fast an industry segment can change and be unpredictable. Other factors include technology changes, customer trends and macro economic events such as SARS, wars, terrorisms and other exogenous events. These factors cannot be easily predicted and will have a significant impact on the stock's volatility.

In summary, Xilinx believes the valuation model is impractical, inaccurate and unreliable. Not only will companies need to model many factors that are unreliable, they will have to predict the future. A re-emphasis of the 2000 bubble, when Xilinx stock was in the mid $90's to where Xilinx is currently trading at one-third the value, the employee stock options granted in 2000 will most likely be exercised at an intrinsic value that is much less than that implied by the expense recognition that would be required by the Exposure Draft.

Stock Options with Graded Vesting Periods

Xilinx believes that it is not possible to reliably measure the fair value at grant date of a long-lived non transferable employee stock option due to graded vesting periods. To realistically believe companies can model the complexity proposed by the Exposure Draft into reliable and transparent financial information is unrealistic, particularly when you combine complex assumptions with highly volatile industries such as the semiconductor industry. For example, the Exposure Draft requires that each separate vesting part of an employee stock option with a graded vesting schedule be measured and recognized as a separate award. Xilinx's employee stock options have a graded vesting period, generally over four years. The vesting for the first year (12 months) is 25 percent and the remaining 75 percent is vested monthly over the next 36 months. According to the Exposure Draft, these options would have to be treated as 37 separate awards, and Xilinx would be required to build a separate lattice model for each separate tranche to estimate its fair value. Each separate tranche would have its own set of inputs for volatility, dividend rate, risk-free rate, employee exercise behavior and post-vesting terminations. Xilinx has approximately 2800 employees worldwide and nearly all of these employees are awarded stock options at various dates. The challenges as well as the costs for administering the different tranches of the stock options would be extremely onerous to Xilinx and its shareholders. Coupled with the complex assumptions for employees' exercise behavior, it would be very time consuming to administer and very difficult to audit. When you combine this with the limited visibility Xilinx has in its industry due to the high cyclicality and rapid changes, the Exposure Draft proposal is problematic and worrisome for investors to decipher the financial results.

Balance Sheet Impact

The Exposure Draft undermines a key principle of accounting with the link between the balance sheet and the income statement. The proposal would distort the earnings per share calculations by changing both the numerator and the denominator, causing a double counting of the impact of the employee stock options on earnings per share. Moreover, if employee stock options expired and were never exercised or forfeited, stock option expense would stay on the books. Since the Exposure Draft does not allow true-up of stock option expense to the actual benefits realized by the employees upon exercise, the profits of the company would be permanently reduced, even though no economic transaction occurred.

Furthermore, according to the Exposure Draft, stock option expense is initially reflected (credited) in the Additional Paid in Capital ("APIC") account of the equity section of the balance sheet. The APIC account is also adjusted for stock option forfeitures and for income tax accounting purposes. All of these adjustments render the equity section of the balance sheet somewhat meaningless and, perhaps, even misstated. The "misstated" equity account also creates some practical problems, such as the calculations for loan covenants and return on equity ratio.

Income Taxes

Xilinx disagrees with the method of accounting for income taxes outlined in the Exposure Drafts. Under SFAS 109, Accounting for Income Taxes, the cumulative compensation expense recognized for an employee stock option that would result in a future tax deduction would be considered a deductible temporary difference, which is based on the fair value of the stock option recognized for financial reporting purposes. Under the U.S. tax law, deductions are measured as the intrinsic value of an award at a specific date. As a result, differences would arise between the amount of deferred tax asset recognized and the ultimate tax benefit realized for income tax purposes. According to the Exposure Draft, tax benefits realized in excess of the amount recognized for financial reporting purposes would be recognized as APIC at the time the tax benefit is realized. However, if the tax benefit ultimately realized is less than the amount recognized for financial reporting purposes, the difference would be recognized as tax expense. This treatment seems to be in conflict with Statement of Financial Accounting Standards No. 123 ("SFAS 123"), Accounting for Stock Based Compensation. Under SFAS 123, such difference would be offset against previously credited to APIC from excess tax deductions associated with previous employee stock options.

Xilinx is confused by the FASB's conclusion, in the Exposure Draft, that an excess tax benefit is an equity transaction while a tax deficiency is not.

Impact to High Growth Sectors and Overall Economy

The impact of the Exposure Draft on the high growth sector of the U.S. economy may be significant. Options give an employee a stake in the company and a concern for its future. This is well documented and has been commented on by many companies, because it is particularly vital in high-technology industries where a good portion of the company's value is its human capital. These companies operate with high price to earnings ratios and with their stock subject to high volatility. The Exposure Draft's proposal for the valuation model creates an inherent problem because of the complex formula used to calculate the value of options will result in a higher projected volatility that will lead to a higher assigned value to the option.

The impact of this can be much greater than that of traditional companies. This is evidenced by some of the early adopting companies (e.g. General Electric, Coca-Cola Company, The Washington Post Company, AT&T Corp) accepting the FASB proposal. By double counting the effect of options on earnings per share, the net affect could reallocate capital from emerging start-up or high growth companies to the more traditional companies. For this very reason, the impact on sectors such as semiconductors, networking and software is substantial, and the competitiveness of emerging technologies will be affected, which may have a far more reaching impact. The employee stock option expensing requirement will likely deter these high technology companies from granting stock options to their employees. This makes the U.S. high technology companies less competitive, especially with Asia. Asian high technology companies strongly believe in employee stock option awards and are not required to expense these employee stock options. Overall, the U.S. and global economies will be negatively impacted as a result.

Intrinsic Value Method of Accounting

Xilinx believes the current intrinsic value method is an appropriate and reasonable method to account for employee stock options, therefore there is no reason to change. Prior to the issuance of SFAS 123, the intrinsic value method of accounting under Accounting Principles Board's Opinion No. 25 ("APB 25"), Accounting for Stock Issued to Employees, has been a reasonable method to use for stock based compensation. The intrinsic value method of accounting has been part of GAAP for over 30 years and is an acceptable method of accounting throughout this time period. Almost all of the companies have adopted this method of accounting.

After the adoption of SFAS 123 by the FASB, the vast majority of companies continued to employ the intrinsic value method of accounting for employee stock options, with supplemental disclosure of pro forma earnings based on the fair value accounting method for employee stock options. If the intrinsic value method of accounting for employee stock options were not reasonable, the FASB would not have continued to allow it to be an acceptable method of accounting and it would not have been part of GAAP for over three decades. The fact that the vast majority of companies use the intrinsic value method of accounting indicates that it is a reasonable method of accounting. The controversial history of SFAS 123 and the actual accounting practices of companies further support the conclusion that the intrinsic value method is an appropriate and reasonable method to account for employee stock options.

Implementation Issues

Xilinx disagrees with the FASB's assertion that the Exposure Draft would establish the financial accounting standards that can be read and understood by those possessing a reasonable level of accounting knowledge and understanding of business and economic activities covered by the accounting standards. The employees of Xilinx have attended many conferences regarding this topic with all levels of industry experts. If there is one agreement that is prevalent in the industry, it is that the level of confusion over this topic is enormous. Not only is there wide spread disagreement on the topic, but there is great concern about its implementation as well as the impact on consistency that it will have regarding financial transparency for financial readers, shareholders and investors. The model is complex, the data is unreliable and the usage or integrity of information will be inconsistent among companies, which will impair the comparability of financials. This is all counter productive to what FASB and the Securities and Exchange Commission tried to move away from after the financial community experienced the 2000 internet bubble, corporate scandals and pro-forma reporting.

In addition, the company's finance resources are already stretched with the implementation of Section 404 of the Sarbanes-Oxley Act of 2002. The complexity and increased workload this Exposure Draft will place on Xilinx and other external professional resources will be particularly harsh and difficult to manage.

Certifications by Company Officers

Pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, the company's' chief executive officer and chief financial officer are required to certify that the information contained in the financial statements (attached to Forms 10-Q and 10-K) fairly presents, in all material respects, the financial condition and results of operations of the company. As previously stated in this comment letter, the fair value of employee stock options cannot be accurately measured. The option pricing models require arbitrary, subjective and potentially inaccurate estimates, which will undoubtedly result in unreliable, inaccurate and inconsistent measurement of employee stock option costs.

Having knowledge of these inherent problems of the option pricing models and the inaccuracy of the employee stock option expenses, how can the company's officers attest to the accuracy and fairness of these financial statements?

Conclusion

In summary, Xilinx disagrees with the mandatory expensing standard for employee stock options. Employee stock options, by accounting definition, are not an expense. There is currently no reliable means by which to calculate a fair value on the employee stock options. The pricing models proposed in the Exposure Draft depend largely upon assumptions regarding unpredictable future events. The valuation results based on such estimates and predictions would likely be speculative at best. The results would vary depending upon what assumptions are used and would likely differ from what would actually occur due to unpredictable and unforeseen developments within a company, its specific industry or the economy as a whole. These significant issues, predictions and judgments used in measuring the cost of employee stock options would render speculative and unreliable financial results and reduce the overall comparability and transparency of financial reporting.

Therefore, given the fact that there are so many issues surrounding the valuation of employee stock options and significant debate still exists, the current accounting treatment of non-expensing in the income statement and the footnote disclosure of pro forma income statement remain appropriate.

Thank you for the opportunity to comment on this important matter and the Exposure Draft. Please do not hesitate to contact either me (408-879-5075), Rick Martig, Senior Director of Corporate Finance (408-879-4728) or Andy Wong, Director of North America Accounting (408-879-4647), with any questions on these comments.

Sincerely,

/s/ Kris Chellam

Kris Chellam
Senior Vice President, Finance and Chief Financial Officer

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